

International Fund for Agricultural Development (IFAD)

FY2005 Appropriation	FY2006 Scheduled Request	FY2006 Arrears Request	FY2006 Total Request
\$14,915,518	\$15,000,000	\$0	\$15,000,000

The International Fund for Agricultural Development (IFAD) was established in 1977 as a multilateral financial institution focused on promoting rural agricultural development in poorer countries. Nearly 75 percent of the world's 1.2 billion poorest people live in rural areas, largely as small-scale producers and subsistence farmers. IFAD's specific mandate is to increase their productivity and incomes, improve their nutritional levels and help integrate them into larger markets. IFAD seeks to design and fund innovative and appropriately scaled programs in such fields as rural institution building and microfinance. IFAD is the only MDB that devotes all of its resources to combating rural poverty. At USAID's request, Treasury assumed lead agency responsibility for IFAD in February 2000. In 2001, IFAD elected its first President from an OECD country (Sweden).

Treasury concluded negotiations for IFAD's Sixth Replenishment (IFAD-6) in December 2002. The target level for donor contributions to the Sixth Replenishment was set at \$560 million. With its pledge of \$45 million, the United States is the largest contributor to IFAD-6. The U.S. achieved several key policy reforms in the IFAD-6 agreement and has worked hard to have them implemented. These include a larger grants program, a performance-based allocation system, an improved results measurement and reporting system, an independent evaluation function, a comprehensive external evaluation of IFAD and formulation of an enhanced private sector strategy.

Key Facts:

- IFAD has 163 members. The United States is IFAD's largest shareholder. Based on pledges to the Sixth Replenishment, the U.S. accounts for over 14.38% of cumulative contributions and approximately 9% of voting power, followed by Saudi Arabia with 5.45%, Japan with 4.13%, Germany with 3.94%, and France with 2.71%.
- Commitments for new projects in 2004 totaled approximately \$400 million for 23 loans averaging approximately \$17 million each.
- To date, IFAD has financed over 676 projects in 115 countries for total commitments of approximately \$8.5 billion. These projects usually address such needs as agriculture and livestock development, micro-enterprise and rural finance, natural resource management, local capacity building, and gender mainstreaming.

Note: Internet Website: www.ifad.org; IFAD Fiscal Year: January 1 - December 31

- Over two-thirds of IFAD loan commitments are on concessional terms (40-year maturity, 10-year grace period, service charge of 0.75 percent per annum). The remainder are provided on either intermediate terms (a blend of concessional and market-based terms, with maturities of 20 years), or on ordinary terms (market-based variable interest rates, and maturities of 15-18 years).
- IFAD leverages its limited resources through co-financing from borrower governments, bilateral and other multilateral donors and NGOs; in fact, up to 30% of funding for IFAD projects has been mobilized from other financing sources.

Promoting U.S. Objectives through Project Loans

Examples of recent loans designed to increase growth, improve productivity, reduce poverty, address post conflict issues, and improve the environment through a variety of means include:

Increasing Productivity and Reducing Rural Poverty

- **China:** (\$14.7 million)- The purpose of the project is to pilot test reforms in rural finance policies at rural credit cooperatives (RCCs) in three provinces where there are IFAD projects to improve their effectiveness and orientation toward women. If the results are positive, the reforms will be extended to other, ongoing IFAD project areas. The project supports the IFAD country policy paper that recommended a policy dialogue to support reform of rural credit cooperatives. The project is expected to have 120,000 beneficiaries.
- **Azerbaijan:** (\$12.56 million)- The project area was selected because its agricultural sector can benefit greatly from improved irrigation systems, thus increasing production yields leading to a better quality of life for the rural poor who have been struggling in the years since the fall of the Soviet Union. The project will fund initiatives to overcome the acute shortage of equipment and working capital at the farm level, introduce modern, appropriate agricultural technology, promote new marketing and processing arrangements, and improve access to credit to finance heavily demanded farm and small and medium enterprise (SME) investments. These activities will improve poor rural livelihoods by promoting farmer organizations and increasing yields. This project also seeks to increase the status of women in agriculture in Azerbaijan.
- **Brazil:** (\$23.2 million)- The project will strengthen the entrepreneurial capability of approximately 20,000 rural women and men in the family agriculture sector of the region through the consolidation or creation of an estimated 3,000 economically viable agro-industries and enterprises of a varied nature, all linked to markets, adequately capitalized and supplied with the necessary technical and financial support. The project will specifically work to incorporate poor rural women into the local economy.
- **Ethiopia:** (\$27.2 million)- The project will promote institutional development and marketing development at the grass-roots level. The adoption of improved processing, storage and transport technologies, combined with improved standards and grading, will

reduce post-harvest crop losses and increase returns to farmers. The establishment of a forward coffee auction and exchange controlled by stakeholders, together with the decentralization of coffee processing and marketing to growing regions, will further raise the price that smallholder farmers receive for their coffee, encourage them to improve quality and reduce unit marketing costs.

Promoting Post Conflict Reconstruction and Development

- **Burundi**: (\$16.1 million)- The project will facilitate community development, provide legal support services, regenerate rural women's livelihoods, rehabilitate and develop agriculture, and rehabilitate and develop rural infrastructure. The project targets 74,000 vulnerable households (370,000 people) living in the Bujumbura Rural, Buruni, and Ruyigi provinces of Burundi. These households were found to be chronically food insecure, with an average farm size of .8 hectares. These households have struggled in the wake of recurrent civil conflict, population displacement, and limited access to agricultural markets and basic health care to combat HIV/AIDS.

Environmental Improvement

- **Gambia**: (\$7.1 million)- The project will empower communities to improve their productive capacity and address long-term land degradation through a coordinated group of activities. The project will then develop the capacity of service providers proactively to support capacity-building within rural communities so that community groups can plan, implement, monitor and maintain livelihood improvements and the sustainable management of the natural resources on which they depend. Community initiatives will be supported through a watershed development fund. The crosscutting issues of women and youth group development and empowerment will be incorporated into the proposed activities.

Implementation of IFAD-VI Replenishment Reforms

Negotiations for the IFAD-6 replenishment agreement concluded in December 2002. The United States was successful in achieving key policy reform objectives consistent with the Administration's overall goal of improving MDB performance through results-oriented programs and management designed to increase economic growth and productivity. These reforms have moved from the design phase and are now being implemented.

- **Performance-Based Allocation System**: The IFAD-6 replenishment agreement commits IFAD to develop and implement a transparent performance-based system for allocating resources. The Board approved a performance-based allocation system framework and methodology at the end of 2003 so that countries with sound policy frameworks for rural poverty reduction and good governance receive resource allocations in line with their demonstrated ability to use the resources effectively. Higher performing countries will receive higher allocations than lower performers. Work on data collection for country assessments has been completed, and IFAD presented at the September, 2004 Executive Board meeting the first country resource allocations for projects in 2005. IFAD is the

first among all the IFIs to disclose all component scores used in the performance-based allocation system (PBAS). The first loans using the PBAS will be presented to the Executive Board for approval in April 2005.

- Results Measurement: In December 2003, the Board agreed on a framework for aggregating the results of loans and grants across countries and projects. IFAD designed and submitted the results methodology to the Board for approval in 2004. It fully commits IFAD to further improving its processes related to measuring and quantifying the results and impacts of its projects, identifying lessons learned, aggregating results by major categories of projects across the organization, and reporting to the Board on an annual basis, commencing in April, 2005.
- Grants: The IFAD Board approved in December, 2003 a new policy paper proposing to raise grants to 10% of IFAD's total annual work program, beginning with the first year of the sixth replenishment (2004). Under the new policy, grants are required to meet the same standards as loans for results measurement and evaluation. The first country grants under the new policy were approved at the December 2004 Executive Board meeting. A program report on the implementation of the new policy will be presented to the Board in September 2005.
- Independent Evaluation Office: The Board approved a new Evaluation Policy in April 2003 that fully implements the replenishment agreement to establish an independent evaluation office. For the first time, the Office of Evaluation (OE) is accountable directly to the Executive Board, and the OE head can be appointed and dismissed only with Board approval. The OE is providing all evaluation reports directly to the Executive Board without clearance by management.
- External Evaluation of IFAD: In 2003, the Board approved the terms of reference for an outside firm to do an independent evaluation of the effectiveness of IFAD in achieving its objectives and intended development results. With financial support provided by the IFAD budget and special contributions from donors, the OE launched an international competitive tendering and selected a service provider to do the evaluation of bids. Work commenced in early 2004, and the Board will discuss the final evaluation report at the April 2005 Executive Board Meeting. Many of the findings from the external evaluation are expected to form the basis for U.S. priorities in the next replenishment, IFAD-VII, which will begin in April 2005.
- Private Sector Strategy: IFAD has begun work on a strategy for achieving greater involvement of the private sector in IFAD programs, through co-financing and other forms of partnership consistent with IFAD's mission. A first draft of the strategy was presented to the Board in April, 2004. The Board requested that the strategy be revised to include a results framework. The Board will consider the revised strategy in April, 2005.

Other Management Initiatives Inline with US Priorities

Financial Management

During 2001, the United States led a successful effort to implement a new investment policy at IFAD that brought IFAD's investment portfolio more in line with that of other international financial institutions. This new policy has helped stabilize IFAD's financial footing.

Combating Terrorism

IFAD cooperates fully with the Treasury in its internal due diligence efforts to implement measures within the organization to prevent inadvertent funding of terrorist individuals or groups with program funds.